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UNCLAS SECTION 01 OF 02 ASHGABAT 000365

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SUBJECT: Turkmenistan's Voodoo Economics: Cash-to-Card  
Society

Summary

1. (SBU) On March 23, President Niyazov signed a decree directing monetary agencies to develop a national non-cash payment system. The GOTX published a tender on April 6 for the requisite software and hardware to establish the system of credit/debit cards for use at 10,000 point of sale (POS) terminals and 300 banking machines. Ostensibly, this program is being implemented to reduce the flow of cash in the economy, reduce corruption and increase tax collection oversight. The GOTX juggernaut appears to be attempting to convert a cash-only economy with few private bank account holders into a cashless society without any formal transition plan. Concurrently, and possibly related, the GOTX is permitting certain entities limited near-market-rate conversions of manat (22,000 - 23,000 per USD), when in the past this privilege was given by presidential permission to a few select businesses. The attempt to monitor the transactions of several businesses could have significant detrimental impact on many small businesses and embassy program-implementing partners if they are forced to operate within formal banking channels. End Summary.

Two Sides to the Plastic Card Story

2. (SBU) European Bank for Reconstruction and Development (EBRD) Turkmenistan Head of the Resident Office Tony Myron told Emboffs that highly-placed sources in two banks confirmed the GOTX plans to create debit cards. All small and medium enterprises, entrepreneurs and patent holders (private businesses) will be required to buy POS card readers at the official rate of 5,200 manats per dollar from the GOTX entities. Myron said that the plan will bring more manat into the banking system, reduce cash on the streets, and aid in the monitoring and collection of domestic private businesses' revenue taxes (2%). Myron said that reducing the flow of unmonitored cash in the informal sector could lead to a more transparent economy.

13. (SBU) The Foreign Currency Operations Chief at the privately-owned Senagat Bank confirmed to Econ Assistant on April 3 the debit card plans, but added that the GOTX will also add a credit feature to the plan and is currently in discussions with Visa and Mastercard. The Operations Chief added that the Central Bank of Turkmenistan will oversee the 300 bank machines, but the Ministry of Trade will be responsible for the distribution of the POS terminals and bank machines. The Operations Chief said there is much speculation regarding the distribution network of the POS machines, but at this time all GOTX stores and most likely the only "western-style" Turkish grocery store Yimpas will make the short-list of mandatory participants.

#### Cash Constricting Policy

14. (SBU) According to Myron, approximately \$350,000 worth of manats from the Central Bank are dropped off each day at several Ashgabat street-side exchange offices. These "offices" function as the city's unofficial moneychangers, and are openly used by clients who exchange dollars for manats at the current unofficial market rate of 24,100 per dollar. A select number of international companies working in joint ventures with the GOTX are officially granted foreign currency conversion through the formal banking system. These companies convert manats to dollars at the market rate. Other international businesses with hard currency demands must convert manats to dollars through formal channels using the official rate of 5,200 manats to the dollar or

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on the black market. Myron confirmed to Emboffs that Senagat Bank has been granting up to \$100,000 manat to dollar conversions each day at the near market rate of 22-23,000 manats per dollar. Post could not confirm if other banks are also granting these official conversions and who is being given this privilege.

#### Comment

15. (SBU) In conjunction with the POS policy, the extension of formal foreign currency conversion at the market rate appears to be a GOTX attempt to exercise control over the cash economy and reign in graft in the black market. Even if the short-term GOTX purchase of manats at the official rate indicate a GOTX move to a single market-based currency rate, embassy doubts this will happen any time soon. A move to a single (arguably convertible) currency would require an entire overhaul of not only the banking system and elimination of the supporting culture of corruption. More likely the purchase could be fueled by a GOTX desire to better control the cash economy in order to address the serious budget deficit and the need to make internal payments: salaries, crops, and social welfare.

16. (SBU) The attempt to assert more control over the general money supply by creating a false non-cash economy is a poor attempt to treat the symptoms and not the disease of an inefficient and non-transparent economy. Universal implementation of the plan is impossible in an economy where very few consumers even have private bank accounts. The attempt to monitor the transactions of several businesses could have significant detrimental impact on many small businesses and embassy program-implementing partners if they are forced to operate within formal banking channels. End Comment.

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